**CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 138 OF THE 281ST MONETARY POLICY COMMITTEE MEETING HELD ON THURSDAY, 16th AND FRIDAY, 17th SEPTEMBER 2021**

The Monetary Policy Committee (MPC) met on the 16th and 17th September, 2021, on a relatively comforting note of a moderate global output growth recovery and improved global trade. The performance of the global economy in the first two quarters of the year and into the third quarter, remained favourable with positive outlook for the rest of the year. However, cautious optimism persists, driven primarily by mutating and more fatal strains of the COVID-19 virus and disparities in the progress of vaccinations across several countries. In the domestic economy, output growth performance continued to improve, signposting the positive impact of the unwavering fiscal and monetary support by both the fiscal and monetary authorities to revive and sustain economic growth, post pandemic. The Committee reviewed the developments in the global and domestic economic environments in the third quarter of 2021, as well as the outlook for the rest of the year.

Ten (10) members of the Committee attended this meeting.

Global Economic Developments

The Committee noted the continuing rebound in the global recovery as several advanced and emerging market economies posted promising second quarter output growth figures, despite the uneven progress in vaccination coverage. The MPC noted that the uncontained spread of the COVID-19 virus continues to pose downside risks to global recovery in 2021 and into 2022. The MPC further noted that despite the strong output growth identified in some Advanced Economies, several developing economies were still lagging in vaccination progress. Members, emphasized that the widespread availability of vaccines,

remained vital to surmounting the Pandemic and attaining full and all-inclusive recovery of the global economy. Despite the challenges posed by the ongoing mutation of the coronavirus, governments across the globe remain focused on easing business restrictions and resuscitating economic activities. Consequently, the International Monetary Fund (IMF), maintained its aggregate projection for global growth in 2021 at 6.0 per cent, but increased its projection for the Advanced Economies to 5.6 per cent from a previous 5.1 per cent, while that for the Emerging Markets and Developing Economies (EMDEs) was downgraded to 6.3 per cent from 6.7 per cent.

Price development across several Advanced Economies has remained on a sustained uptrend and exceeding their long run objectives. This is expected to continue in the short to medium term as against earlier forecasts that the upward shift was transient. Consequently, several central banks of advanced economies are currently considering early commencement of monetary policy normalization, even though policy rate adjustments are not expected in the medium term. Across several Emerging Market and Developing Economies, inflationary pressures remained mixed, as some economies had much higher rates than their peers, due to lingering exchange rate pressures, capital flow reversals, high energy costs, supply chain disruptions and poor response to policy stimulus resulting from structural bottlenecks.

In the global financial markets, the Committee noted that while demand for equities remained strong, an indication of renewed market confidence, gold price still maintained its post-Pandemic high, reflecting the hedging by investors against a possible rebound of the Pandemic. Long-term sovereign bond yields are expected to improve with the commencement of monetary policy normalization by central banks of advanced economy. Committee members, however, expressed cautious optimism for a gradual normalization of monetary policy by these central banks, as a sharp retreat of policy stimulus may plunge the global economy into a financial crisis again. This may also increase the uncertainty around the full recovery of several Emerging Market and Developing Economies. The MPC, therefore, called on the Bank to put in place measures to

moderate the likely impact of the normalization of monetary policy on the domestic economy.

Domestic Economic Developments

In the second quarter of 2021, there was a significant improvement in the real Gross Domestic Product (GDP), which grew by 5.01 per cent compared with 0.51 and -6.10 per cent in the previous quarter and corresponding quarter of 2020, respectively. This recovery was attributed to the non-oil sector, driven by a rebound in services sector and continued growth in agriculture sector. The oil sector contracted further by -12.65 per cent (year-on year) in the second quarter of 2021, compared with -2.21 per cent in the previous quarter. This deeper contraction, was attributed to several factors: including declining crude oil production at two crude streams in the country, associated with leakages in two major pipelines; deteriorating oil production infrastructure; poor pipeline maintenance; and the need to comply with OPEC+ production ceiling.

The Committee noted the moderate improvement in both the Manufacturing and Non-Manufacturing Purchasing Manager's Indices (PMIs), though still below the 50-index point benchmark, showed a marked improvement over time. In August 2021, the Manufacturing and non-Manufacturing PMIs improved to 46.9 index points apiece, compared with 46.6 and 44.8 index points, respectively, in July 2021. This was attributed to an increase in new orders, driven largely by rising demand, uptrend in business activity and further normalization of economic activities. Similarly, the employment level index component of the Manufacturing and non-Manufacturing PMIs in August 2021 improved to 49.4 and 48.8 index points, respectively, compared with 46.5 and 47.0 index points in July 2021. The Committee expressed optimism that with the current level of monetary and fiscal stimuli, as well as efforts to increase vaccination and contain the Pandemic, the economy will continue to improve in the short-to medium term.

The Committee reviewed the performance of the Bank's interventions to sustain the recovery of output growth and address the downside risks to other external

and domestic shocks to the economy. Interventions continued largely in Manufacturing, Agriculture, Energy/infrastructure and Micro, Small, and Medium Enterprises (MSMEs).

The Bank under its Anchor Borrowers Programme (ABP) has cumulatively released the sum of ₦798.09 billion to 3.9 million smallholder farmers cultivating 4.9 million hectares of land across the country. Out of this for the 2021 wet season farming, the Bank released the sum of ₦161.18 billion to 770,000 small-holder farmers cultivating seven (7) commodities on 1.10 million hectares across the country. While harvesting for the 2020 dry season under the Programme is rounding up, harvesting activities have commenced for the 2021 wet season cultivation. The Strategic Maize Reserve Programme of the CBN has been useful in moderating maize prices by directly targeting large feed mill producers. Under its Commercial Agriculture Credit Scheme (CACS), the CBN has supported 657 large-scale agricultural projects, to the tune of ₦708.39 billion.

To support MSMEs across the country, the Bank disbursed ₦134.57 billion to 38,140 beneficiaries under the Agribusiness/Small and Medium Enterprise Investment Scheme (AGSMEIS), and for the Targeted Credit Facility (TCF), the sum of ₦343.21 billion has been released to 726,198 beneficiaries, comprising 602,730 households and 123,468 Small and Medium Enterprises.

Under the Real Sector Facility, the Bank released the sum of ₦1.00 trillion to 269 real sector projects, of which 140 are in light manufacturing, 71 in agro-based industry, 47 in services and 11 in mining. Under the Healthcare Sector Intervention Facility (HSIF), ₦103.02 billion has been disbursed for 110 healthcare projects, of which 27 are pharmaceutical, 77 hospitals and 6 other healthcare service projects. The Bank has also disbursed a total of N145.99 billion under its Non-Oil Export Stimulation Facility (NESF). The CBN has revised the guidelines, working with Nigerian Export-Import Bank to improve access to the intervention and stimulate non-oil export growth in Nigeria.

Under the National Mass Metering Programme (NMMP), ₦41.06 billion has been disbursed to ten (10) DisCos, for the procurement and installation of 759,748

electricity meters. Under the Nigerian Electricity Market Stabilization Facility - 2 (NEMSF-2), the Bank has released the sum of ₦145.66 billion to 11 DisCos as loans to provide liquidity support and stimulate critical infrastructure investment to improve service delivery and collection efficiency.

In furtherance of its intervention in the energy sector, the Bank has disbursed ₦39.20 billion to six (6) beneficiaries to improve gas-based infrastructure to support the Federal Government's Auto-Gas Conversion Programme. The Bank has also encouraged Deposit Money Banks (DMBs) to participate in the Solar Connection Facility (SCF) to improve energy access in the rural areas.

To promote entrepreneurship development among Nigerian youth, the Bank recently approved the implementation of the Tertiary Institutions Entrepreneurship Scheme (TIES). The Scheme is designed to promote entrepreneurial activities and foster job creation among Nigerian youths.

The Committee applauded the continued moderation in headline inflation for the fifth consecutive month to 17.01 per cent (year-on-year) in August 2021 from 17.38 per cent in July 2021. The continued decrease was attributed to a marginal decline in the food component to 20.30 per cent in August 2021 from 21.03 per cent in July 2021. The core component, also, declined to 13.41 per cent in August 2021 from 13.72 per cent in July 2021. The MPC noted that headline inflation remained well above the Bank's benchmark corridor of 6 – 9 per cent, but expressed optimism that with sustained interventions by the Bank, food production will continue to improve, thus moderating headline inflation further. The Committee, thus, urged the fiscal authority to build on earlier efforts to articulate a clear strategy to attract private sector investment while resuscitating critical infrastructure to improve the ease of doing business in the country.

Members observed that broad money supply (M3) rose to 5.83 per cent in August 2021, compared with 2.91 per cent in July 2021. This was largely driven by the growth of Net Foreign Assets and Net Domestic Assets by 12.35 and 4.30 per cent in August 2021, compared with 1.84 and 3.17 per cent in July 2021, respectively. The growth in Net Foreign Assets was largely driven by increase in

foreign asset holdings of commercial and merchant banks. The increase in Net Domestic Assets reflects the boost to aggregate credit net, which increased to 8.14 per cent in August 2021, from 5.71 per cent in July 2021.

In the money market, the monthly weighted average Inter-Bank Call and Open Buyback (OBB) rates increased to 13.45 and 12.97 per cent in August 2021 from 10.72 and 11.60 per cent in July 2021, respectively. This increase reflected the tight liquidity conditions in the banking system during the review period as the Bank curtailed excess system liquidity.

The MPC noted the moderate improvement in the equities market in the review period, as the All-Share Index (ASI) increased by 2.67 per cent from 37,907.28 on June 30, 2021, to 38,920.50 on September 14, 2021. Market Capitalization (MC) also increased by 2.63 per cent from N19.76 trillion to N20.28 trillion over the same period, reflecting improvement in investor confidence following the strengthening of output growth.

The MPC noted that the Capital Adequacy Ratio (CAR) and the Liquidity Ratio (LR) both remained above the prudential limits at 15.2 and 41.7 per cent, respectively at end-July 2021. The Committee, also, welcomed the improvement in the Non-Performing Loans (NPLs) ratio at 5.4 per cent in July 2021, compared with 5.7 per cent in June 2021. The Committee thus, urged the Bank to sustain current efforts to bring NPLs below the 5.0 per cent prudential benchmark.

The Committee noted the improvement in lending to the real sector following the introduction of the Loans-to-Deposit Ratio (LDR) in 2019. Industry gross credit increased by N6.63 trillion from N15.57 trillion at end-May, 2019 to N22.20 trillion at end-July, 2021. The credit growth was largely recorded in manufacturing, oil and gas and agriculture sectors.

The Committee noted the significant increase in the external reserves which rose to US$35.97 billion at end-August 2021 from US$33.49 billion at end-July 2021, representing an increase of 7.41per cent. It also welcomed the further increase to US$36.03 billion on September 13, 2021.

Outlook

The outlook for both the global and domestic economies appears mixed. This is due to lingering uncertainties over the end of the COVID-19 pandemic as well as continued mutation of the virus. The slow and uneven pace of vaccination in developing economies is also compromising the achievement of global herd immunity, thus imposing a considerable headwind to the attainment of the global growth forecast.

Some central banks in advanced economies have given guidance of intended commencement of monetary policy normalization as monetary and fiscal policy across major advanced and emerging market economies have remained robust. This would constitute a further headwind to the full and inclusive recovery of the global economy due to the likely rise in cost of capital. The global economy is confronted with more headwinds than tailwinds, evidenced by the multitude of conflicting signals emerging from various major economies.

Available data and forecasts for key macroeconomic variables for the Nigerian economy, suggest further rebound in output growth for the rest of the year. This will however be hinged on the continued stability in oil price and robust vaccination in Nigeria and across other countries. Foreign exchange market stability, further reduction in inflationary pressure in the economy and continued interventions by the monetary and fiscal authorities are very important factors to sustain the recovery momentum. Consequently, the Nigerian economy is forecast to grow in 2021 by 2.86 per cent (CBN), 3.0 per cent (FGN) and 2.5 per cent (IMF).

The Committee's Considerations

The Committee noted the recovery in output growth and improving PMIs in the second quarter and urged the Bank to maintain the momentum of its current policy measures to sustain positive and inclusive real GDP growth.

The increasing level of insecurity in parts of the country remained a crucial point of concern for the MPC as its persistence could adversely impact business

confidence and derail the recovery. It continued to call on the Federal Government to prioritize security surveillance in farming communities as the increased supply of food would play a significant role in stabilizing macroeconomic fundamentals.

The Committee applauded the steady but moderate decline in domestic prices as inflation decelerated for the fifth consecutive month with forecast indicating a continued downward trend. The Committee also welcomed ongoing efforts towards revitalising the Nigeria Commodity Exchange (NCX) to improve the supply value chain, curtail the speculative activities of middlemen in the agricultural sector, and consequently drive down prices of key commodities such as paddy rice, maize, wheat and sorghum, amongst others.

Members applauded the relentless effort by the Bank and other collaborators in ensuring the eventual take off of the Nigerian Infrastructure Corporation (INFRACORP), as this will improve the business environment, attract new investment and create new jobs in the Nigerian economy. The MPC further emphasised the importance of investment in transportation networks, power supply and telecommunication as these have a multiplier effect on other sectors of the economy. In addition to the INFRACORP initiative, Members urged the fiscal authority not to relent on other complementary infrastructure initiatives such as Public-Private-Partnerships and engagement of Nigeria's huge diaspora through the issuance of diaspora bonds to fund specific projects.

The MPC noted the moderate improvement in the equities market and commended the sustained investor confidence in the Nigerian economy. The Committee however called on the Federal Government to continue to improve the ease of doing business in Nigeria to retain the current patronage of the Nigerian economy by foreign investors.

Members applauded the continued resilience of the banking system, noting the progressive decline in the non-performing loans ratio, and broad improvement in all banking system parameters, despite the downside risks posed by the Pandemic to the smooth running of businesses. While the Committee was

cognizant of the credit risks associated with lending in the current economic climate, it urged Nigerian banks to extend more credit to businesses and consumers to facilitate a seamless recovery of output growth, reduce unemployment and stabilize prices.

On the management of the exchange rate, the Committee applauded the Bank for improving foreign exchange supply in the economy to meet legitimate business and consumer demand. Members thus, urged the Bank to take further steps to restrict the activities of unauthorised and illegal dealers in the foreign exchange market, stating that all foreign exchange transactions must be conducted at the I&E window to ensure transparency and stability. The Committee, thus, called on the Bank to intensify surveillance over foreign exchange sales and utilisation by commercial banks and customers, to ensure that operators adhere to stipulated guidelines set by the CBN. The Bank thus, maintains its resolve to continue to restructure the foreign exchange market and will pursue all recent policies targeted at sanitizing the market to improve transparency and proper functioning to eliminate illegal foreign exchange dealers in the economy.

On Government revenues, members urged the Federal Government to improve its tax collection in order to reduce its dependence on oil revenues and reduce its exposure to counter-cyclical shocks.

The Committee emphasised the growing need to improve the agricultural value chain, particularly in key commodity products like cocoa, palm oil and cashew to diversify the country's export receipts. It, therefore, called on the Bank to support manufacturing initiatives that could achieve this objective.

The Committee applauded the Bank for its resilience and robust efforts in managing the downside risks to growth and the upside risks to inflation since the outbreak of the Pandemic, while charting a stable path for the economy to continue to expand its potential capacity through investment in infrastructure.

Overall, the MPC assessed the headwinds and tailwinds to growth, as well as, the upside risks to inflation, noting the immense effort by both the monetary and fiscal authorities to achieve a substantial recovery in output growth and decrease in inflation. The Committee urged the Presidential Task Force on COVID-19 to intensify efforts toward procurement of more vaccines and the vaccination of more people to ensure that herd immunity is achieved.

The Committee's Decision

The MPC expressed delight at the robust recovery of output growth during the second quarter and the continued decline in inflation. Members, however, re-iterated the need to put in place further measures to drive down inflation and improve real returns on investment. The MPC noted the unequivocal importance of credit growth to the sustained recovery of output and the moderation in price development as supply improves. It thus, called on the Bank to maintain adequate surveillance on banks to ensure compliance with its extant credit policy, while ensuring that they are not unduly exposed to credit risks.

The Committee also noted the relevance of the Bank's suite of interventions to the overall system credit, urging its continued use to fund sectors with high employment-generating capacity.

MPC weighed the pros and cons of tightening, holding or loosening the stance of policy, noting the impact on output growth, price development, unemployment and exchange rate.

Members felt that tightening will contract the current level of system liquidity, and thus reduce demand pressure in the foreign exchange market, given that the current MPR at 11.5 per cent, CRR at 27.5 per cent and liquidity ratio at 30.0 per cent is already a tightening stance. This will, however, raise the cost of credit and reduce the volume of credit to the private sector.

On loosening, the Committee felt that this would lower retail interest rates and improve the ability of obligors to repay their obligations, with a complementary reduction in NPLs. The gradual downward movement of inflation may, however,

be compromised if policy accommodation is increased, leading to a further widening of the negative real interest rate and thus exacerbating capital outflows as investment in naira denominated assets become less attractive.

Members considered that a hold stance would allow the current recovery of output growth and decline in inflation to continue smoothly, thus gradually moving the economy to a sustainable path before adjustments are made to the stance of policy.

Based on the above considerations, the MPC made the decision to hold all policy parameters constant; believing that a hold stance will enable the continued permeation of current policy measures in supporting the recorded growth recovery and macro-economic stability.

The Committee thus decided by a unanimous vote to retain the Monetary Policy Rate (MPR) at 11.5 per cent.

In summary, the MPC voted to:

i. Retain the MPR at 11.5 per cent;
ii. Retain the Asymmetric Corridor of +100/-700 basis points around the MPR;
iii. Retain the CRR at 27.5 per cent;
iv. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

17th September, 2021

## PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

### 1. ADAMU, EDWARD LAMETEK

Global economic recovery remains on course despite uncertainties including new variants of the coronavirus driving infection resurgence in parts of the world, uneven access to vaccines, inflation spikes and high public debt levels. In July 2021, the International Monetary Fund (IMF) retained its global growth forecast of 6.0 per cent for 2021. This was broadly indicative of good economic recovery prospects in the rest of the year. However, across country clusters, recovery prospects continued to diverge. Whereas the growth outlook for the advanced economies continued to improve, prospects for emerging markets and developing economies (EMDEs) had moderated since April 2021, offsetting the gains from the advanced economies.

Developing countries generally need to take a hard look at the sources of the divergence with a view to shoving up their growth prospects. Two major factors deserve immediate attention. They are COVID-19 vaccination and policy support. The recent surge in COVID-19 infections around the world is having a greater impact in developing countries owing to the slower pace of vaccine rollout in most of those countries. Advanced economies have been able to bring down caseloads more quickly because of speedy vaccine rollout. Among other imperatives, Nigeria needs to sustain focus on vaccination – vaccine availability and hesitancy. Whereas, the former appears to be ameliorating, the latter continues to be a challenge even among health professionals. I believe that this should pre-occupy not only the Federal Government (FG) but the other tiers of government as well. Civil society can also play a key role in mobilizing the public to embrace vaccination.

On policy support, the quality and intensity of support continue to be important for recovery. We have seen this play out in the advanced economies. Fiscal support and related measures have been more robust in some regions, Europe, and the US especially, with correspondingly good recovery prospects. By contrast, many EMDEs are struggling with fiscal space and trying to build buffers during this challenging time. Some of them are further constrained by upward pressures on prices (consumer and exchange rate) to slow down liquidity injections or even commence normalization. This move could prove to be premature and inefficient given the fragility of output recovery in those climes, and the rather unclear path of monetary policy in the advanced economies. For Nigeria, I do not think the time is rife to look in that direction despite the

constraints emanating from prices. This is primarily because the current pressures on domestic prices appear firmly rooted in supply shocks related to the COVID-19 pandemic and insecurity. Increasing domestic production of goods and services and easing distribution bottlenecks appeal to me as the proximate solution to the inflation pressures.

I am convinced that the ongoing interventions by the Federal Government and the CBN, aimed at boosting domestic production and easing circulation of goods around the country are yielding expected results in terms of both economic growth and consumer prices. What's needed at this point is to ramp-up fiscal support in key sectors as well as the development finance interventions of the Bank, while strengthening targeting mechanisms. To this end, greater collaboration between institutions of the FG and those of the states will afford policy support greater traction.

My overall judgement is that the extant monetary policy configuration has continued to serve its purpose of moving the economy out of stagflation, which partly explains my decision to retain all the parameters at the September 2021 meeting of the Monetary Policy Committee (MPC). Further elaborations on the considerations that informed that policy choice and my inclination towards deepening development finance and fiscal support to the real sector are presented in the rest of this statement.

First, global inflation has trended upwards lately, prompting concerns about policy normalization in the advanced economies. A sudden monetary policy normalization by the advanced economies, should inflation persist in those countries, could tighten financial conditions and complicate recovery in EMDEs because of the consequential tightening of external financing. Policy makers in these economies (including Nigeria) need to be mindful of this risk to domestic output recovery. To prepare for this eventuality, the Bank and the FG need to deepen current interventions in the real sector to firm up economic recovery as quickly as possible.

Second, domestic economic growth prospects have improved slowly since the third quarter of 2020. In fact, the Q2 2021 national accounts posted a real GDP growth of about 5.0 per cent, reflecting impressive outturns in Services and Agriculture. However, some subsectors are still struggling and might require extra policy support. In the Industry cluster, Mining and Quarrying has continued to decline, offsetting the expansion in Manufacturing, Construction, and others. Likewise, Finance and Insurance further declined in Q2 2021 owing to a substantial contraction in Financial Institutions. Clearly, these sub-sectors need

targeted support to re-invigorate activity and restore them to growth. In general, it is safe to say that the economy is not fully out of the woods. This is further amplified by the purchasing managers indices (PMIs) – both have remained below 50 points, suggesting weak output recovery prospects despite the impressive Q2 outturns. Current staff forecasts indicate a real GDP growth of about 2.86 per cent for 2021. The IMF and World Bank are slightly less optimistic with projections of 2.5 and 1.80 per cent, respectively. These forecasts place Nigeria among countries looking to post the least growth rates in the EMDEs cluster. I believe that the Nigerian economy could achieve more with extra policy support.

Third, headline inflation slowed for the fifth straight month to 17.01 per cent in August 2021. It was the lowest rate since February 2021, driven by a further slowdown in food inflation especially. It is instructive that core inflation also slowed in August, suggesting a firmer downward path for headline inflation. Hopefully, as harvests begin, further deceleration in food prices should bear positively on overall inflation. Against this consideration, staff forecasts of headline inflation suggest continued deceleration to year-end. This gives the Bank some room to continue to push economic activity with targeted interventions.

Fourth, the strategy of maintaining banking system liquidity close to its optimal level is an integral part of the current monetary policy orientation aimed primarily at addressing inflation. In August 2021 both the interbank call and open-buy-back (OBB) rates (weighted averages) rose in line with the intensity of the sterilization actions of the Bank during the period. I believe that the Bank should sustain this element of the current monetary policy mix to further rein-in inflation and exchange rate pressures.

Finally, despite some risks and challenges, the last couple of months have witnessed a broad improvement in the macro-fundamentals. Inflation is slowing, and I expect seasonal factors like commencement of harvests to complement the extant measures to bring about speedier deceleration in the months ahead. The sterilisation actions of the Bank continue to have the desired effect of keeping banking system liquidity close to optimum as shown by the relative stability in the interbank interest rates. Those actions need to be sustained through the rest of the year given that inflation and exchange pressures remain important policy concerns. Output has continued to recover as shown by the Q2 real GDP numbers. There are downside risks which may be ameliorated by sustained policy support and improvement in security. The current measures aimed at boosting credit to the economy like the innovations around the CRR, the loan-to-deposit ratio (LDR) and the global standing instruction (GSI) are

working and deserve to be retained. The scope for sustaining credit flow to the real economy appears large given that the banking system remains sound and resilient with major financial soundness indicators (FSIs) showing robustness – growing ratio of Tier-1 capital, declining non-performing loans ratio, rising liquidity ratio and a relatively high capital adequacy ratio (CAR).

Over the short- to medium-term, I believe, the policy priority continues to be how to firm up economic recovery. The PMIs are still below 50 points, pointing to a fragile growth outlook. Economy managers need to maintain focus on the dominant risks to recovery - COVID-19 virus mutations and insecurity. The Bank has no direct control over both but could influence government response by remaining engaged with the relevant authorities on the subjects. Everything considered, I felt persuaded to retain the major monetary policy parameters at their levels prior to the September 2021 meeting of the MPC. In effect, I voted to:

1. Retain the MPR at 11.5 per cent.

2. Retain the asymmetric corridor at +100/-700 basis points around the MPR.

3. Retain the CRR at 27.5 per cent.

4. Retain the Liquidity Ratio at 30 per cent.

## 2. ADENIKINJU, ADEOLA FESTUS

### International Economic Development

Development in the global economy provides mixed opportunities for Nigeria in the near and medium term. The global economic recovery is on pace to deliver the IMF 2021 GDP growth projections of 6.0%, though with a widening gap between advanced economies and emerging and developing economies. The US and China, two of the most important Nigeria trading partners are expected to deliver respectable GDP growth results in 2021. Commodity prices, including oil, are doing very well. Bonny Light is over US$72.17/b as of September 14, 2021. Global oil demand is expected to outpace oil production in 2021. Global trade is projected to sustain its recovery in Q4 2021. On the other hand, headwinds include rising global inflation expectation, especially in advanced economies, the possibility of monetary policy normalisations in the advanced economies, the uncertainty surrounding COVID-19 and its variants, and the possibility of capital reversals from developing economies. Digital currencies are receiving the attention of central banks across the world. Global debt also showed slight decline in Q1, 2021, for the first time in ten quarters. Nigeria, like other IMF member countries benefitted from single largest allocation of SDR by the IMF on August 23, 2021. Advanced and emerging economies received US$375 billion and US$275 billion, respectively.

### Domestic Economic Development

The Economic Report presented by Bank Staff showed a V-shaped recovery of the economy. Real GDP grew by 0.51% in Q1 2021 and accelerated to 5.01% in Q2.2020 y-o-y, up from -6.10% in Q2, 2020. Oil GDP contracted by 12.65%, fueled by decline in oil production, implying that the growth in Q2, 2021 was due to the performance of non-oil GDP. Both Manufacturing and Non-manufacturing PMIs improved in August 2021 relative to July 2021, but remained below the threshold of 50.0 points.

Headline inflation also moderated to 17.01% in August 2021 down from 17.38% in July 2021, driven primarily by decrease in food inflation. Monetary base expanded slightly in August 2021 relative to the previous month. M3 grew by 5.83% in August 2021 compared to 2.91% in July 2021, due to rise in both Net

Foreign Assets and Net Domestic Assets. The Nigerian Stock Market was particularly bullish in August as All Share Index rose from 38,547.08 points in July 2021 to 39,485.65 points in August 2021. This was due to positive movements in the banking, and oil and gas sectoral indices.

There was increase in money market rates to reflect the market fundamentals. OBB rate rose from 10.72% in July 2021 to 13.45% in August 2021. Lending rates declined marginally from 29.8% in June 2021 to 27.19% in July 2021. Savings rate rose marginally to 1.82% in July 2021 from 1.81% in June 2021. Concurrently, interest rate spread also reduced marginally.

There was also mixed performance in the external trade sector. Balance of trade and current account balances, though in deficits, showed improvement in August 2021, relative to previous month, owing to higher export proceeds and lower imports of non-oil products. Similarly, remittances inflow increased. Both FDI and FPI increased month-on- month due to improved yields on fixed income securities. However, the exchange rate markets experienced significant pressures leading to depreciation of the naira against the US dollar. The external reserves rose because of increase in the SDR allocation by the IMF and rise in third party receipts.

The fiscal sector is significantly challenged. FG retained revenue declined from N420.2 billion in July 2021 to N376.33 billion in August 2021. The corresponding fall in government expenditure from N962.05 billion in July 2021 to N781.61 billion in August 2021 is due to compression in capital spending relative to their budget. The excess crude oil account was further depleted in the month to augment government balances.

The Banking System Stability Report presented by the Bank Staff showed that all the financial soundness indicators remained very good, although there is a slight deterioration, in Capital Adequacy Ratio, Return on Equity and Return on Assets, relative to the last MPC meeting. Nevertheless, overall, they showed that the banking sector is strong, resilient, and safe. Aggregate credit remains in upward trajectory rising to N22.2 trillion in July 2021, up from N19.29 trillion in corresponding period in 2020. Aggregate credit by the OFIs also increased relative to the last MPC meeting. Most sectors of the economy, and households, benefitted from the increased credit. The various interventions by the Bank is providing a boost to personal consumptions and economic growth.

**My Concern**

Nigeria is going through turbulent times economically. Some economic indicators are moving in the right direction, others are moving in the wrong direction. The Q2.2021 GDP growth of 5.01% is a positive development, albeit reflecting base effect. Inflation, though receding, is still at unacceptably high level. Interest rates margin is narrowing, though still unacceptably wide. The CBN has succeeded in expanding both aggregate credit in the economy, as well as directing single interest rate to MSMEs and households.

However, the exchange rate movements remain worrisome. The demand pressure in the formal market remains exceedingly high. The challenge is how to boost foreign exchange supply to the economy. Given the four major sources of expanding supply: oil exports, foreign capital flows, remittances and non-oil exports, foreign portfolio investments, while desirable, is however, very fungible. Oil exports is similarly very volatile. The long-term interests of the country would be served by encouraging remittances and non-traditional exports. Hence, suggestions to nationalise remittances will be counterproductive to the economy in the long term. Nigerians should be encouraged to bring in their funds into the economy by removing any uncertainty around the ownership and management of such funds.

The CBN should conduct study to better understand the working of the foreign exchange market in Nigeria, especially the microeconomic factors driving economic agents' behaviour in the market.

In the light of the above, I would like to make the following recommendations: First, given the limited options open to the Bank to expand foreign exchange supply in the near term, there is a need to carry out a comprehensive study of foreign exchange market operations in Nigeria with a view to determining the fundamental drivers, and relative sizes of the segments of the foreign exchange market in Nigeria.

In addition, there must also be effective monitoring of the DMBs to close loopholes for shady practices, collusion, and round tripping. Continuous communication to market operators on the policy of the Bank and assurances that customers will continue to have access to their domiciliary accounts is particularly important to improve transparency and certainty. Furthermore, the Bank should engage with the Government and the NNPC to find out the reasons for the non-remittances of any foreign exchange from crude oil and gas exports for two consecutive months.

Given the fragile growth currently recorded in the economy, and the high poverty and unemployment rates, CBN must sustain its current intervention programmes to boost domestic supply and create jobs. The other initiatives of the Bank in areas like creative industry and reactivation of the Commodity Exchange are pivotal to increasing employment and reducing poverty, especially among the youths. In similar vein, the Development Finance Department should prioritise credit support for exporters.

Moreover, the implementation of the Petroleum Industry Act should help to drive investment into the petroleum sector. This has the effects of boosting the oil sector's contributions to growth. Expanding oil reserves will provide a basis for OPEC to increase the quota allocated to the country.

The INFRACORP idea proposed by the Banking Committee is a very brilliant initiative. It will provide alternative source of financing infrastructure development for the country. This will relieve pressure on government accounts. There is a need to expedite action on its practical implementation.

Lastly, the insecurity issue must be urgently addressed. This is a major cause of food price inflation in the country, and the high-risk premium that foreign investors priced into their investment in the country.

**My Vote**

In casting my vote in this meeting, I have tried to balance the various risks and vulnerabilities existing in the economy with a view to doing what is best for the country at this time. Further tightening of the economy would not be helpful to growth, employment, and poverty reduction at this time. Loosening would also not be helpful to sustaining the gain in price stability. Hence, I cast my vote to maintain all monetary parameters at their extant values:

1) MPR at 14.5%
2) CRR at 27.5%
3) LR at 30%
4) Asymmetry corridor around the MPR at +100/-700 basis points.

**3. AHMAD, AISHAH N.**

*The September MPC meeting opened with positive news on the trajectory of domestic macroeconomic indicators such as output growth and inflation, validating the relatively dovish policy stance adopted by the committee in the past few meetings. Consolidating on these positive developments and driving a faster post-covid recovery remains paramount – for this reason, I voted to hold all policy parameters finding no compelling reason in the immediate term to vary the stance.*

**Global economic recovery prospects remain strong** particularly in advanced economies with a high rate of COVID-19 vaccination, which has mitigated fatalities despite rising cases of infections. The IMF in its July update of the World Economic Outlook confirmed its earlier forecast of 6.0 per cent global growth for 2021 and 4.9 per cent in 2022. Global economic indicators however showed an uneven recovery across advanced and emerging economies due to constrained fiscal space, limited availability of vaccines and slow progress in vaccine administration in emerging markets and developing economies. Accordingly, 2021 growth projection for advanced economies was revised upwards to 5.6 per cent from 5.1 per cent, while that of EMDEs was revised downwards from 6.7 per cent to 6.3 per cent. Concerted efforts at increasing the availability of COVID-19 vaccines in countries facing resource constraints alongside substantial monetary and fiscal policy stimulus measures are critical factors that will ensure more even, sustainable growth in global output.

**Inflation rates in key advanced economies have surpassed long-term targets of many central banks**, while food and currency pressures are pushing up prices in several EMDEs. Whereas the current price developments appear to be transient, these upward movements are expected to determine future monetary policy stance. Although US inflation slowed to 5.3 per cent in August 2021 from 5.4 per cent in July 2021, it is projected to remain high for a while due to persistent supply constraints. Partly driven by this development, the Fed has given forward guidance of a likely tapering of its US$120 billion monthly bond purchase programme later this year. The European Central Bank has also commenced tapering of its pandemic bond purchase programme whilst the Bank of England is following suit. The ensuing tightened financial conditions in advanced economies portends significant macro-economic risk for EMDEs due to their constricted fiscal space and limited room for monetary maneuvers. Bold policy initiatives will be crucial to drive strong and sustained recovery in the EMDEs.

**Domestic output recovery strengthened further, remaining on a positive trajectory.** NBS data shows that real GDP grew by 5.01 per cent in Q2 2021, compared with 0.51 and -6.10 per cent in the previous quarter and corresponding quarter of 2020, respectively. This recovery was attributed to the non-oil sector, driven by a rebound in services and continued growth in agriculture sectors – an indication that CBN interventions in the real sector of the economy are yielding some results.

The manufacturing and non-manufacturing purchasing managers' indices, though below 50.0 index points, continued on the upward trajectory both increasing to 46.9 index points in August 2021, compared with 46.6 and 44.8 index points, respectively, in July 2021. Output growth is expected to further strengthen in the near term with sustained implementation of fiscal and monetary stimuli, alongside efforts at increased vaccination to build herd immunity, contain the pandemic and mitigate its disruptive economic impact.

**Domestic prices remained on the path of decline** as headline inflation year-on-year decelerated for the fifth consecutive month to 17.01 per cent in August 2021 from 17.38 per cent in July 2021. The food component of inflation also decelerated to 20.30 per cent in August 2021 from 21.03 per cent in July 2021, while core inflation declined to 13.41 per cent from 13.72 per cent over the same period. Staff forecasts indicate a continued downward trend in domestic prices as monetary and fiscal efforts move to increase output, whilst structural factors driving domestic price developments such as security, infrastructure, and logistics arrangements are addressed.

**External sector trends improved** as reflected in the balance of trade position which narrowed by 52.56 per cent to a deficit of N1,870.77billion in Q2 2021, down from a deficit of N3,943.45 billion in Q1 2021, driven by a 74.72 per cent rise in exports which outstripped increase in imports of 1.45 per cent. External reserves increased by 7.41 per cent to US$35.97billion at end-August 2021, up from US$33.49 billion at end-July 2021, whilst relative stability was maintained in the I & E foreign exchange window following sustained implementation of policies aimed at boosting liquidity and improving supply to meet legitimate demands for eligible transactions (PTA/BTA, school fees, medical, etc.). The Bank is encouraged to sustain the implementation of measures focused on demand/ supply side management and sanitizing the foreign exchange market in order to improve FX supply and drive further external sector improvements.

**The banking sector remained sound and resilient.** Capital adequacy stayed strong at 15.2 per cent, whilst increase in credit was sustained with a growth of N3 trillion (15.63 per cent) year on year with increased credit being channeled

to growth enhancing sectors. DMBs' liquidity profile marginally improved, increasing from 41.3 per cent to 41.7 per cent, which is above the 30 per cent regulatory benchmark, whilst the Bank continued to use Cash Reserve Requirement balances to provide liquidity backstops to banks as the need arose. Non-performing loans ratio declined further to 5.4 per cent in July 2021 from 5.7 per cent in the previous month reflecting strong industry risk management practices. The Nigerian payment system also retained its operational resilience effectively accommodating increased volume and value of transactions as more customers migrate to digital banking channels. The CBN must, however, remain vigilant and proactively manage risks to financial system stability from global and domestic macroeconomic developments.

**Overall, the macro-economic outlook is positive while financial stability risks are well managed.** The following additional policy measures soon to be launched by the Bank will further improve macro-economic prospects:

- The revitalization of Nigeria Commodity Exchange (NCX), Nigeria's premier commodity exchange, will enhance price discovery, boost trade in agricultural commodities and promote overall investment into the agriculture sector.
- The development of the Lagos Creative and Entertainment Center and renovation of the National Art Theatre will boost Nigeria's burgeoning IT and creative sectors and position it to increase its contribution to GDP.
- Nigeria's Central Bank Digital Currency, e-Naira will improve monetary policy effectiveness, improve payment system resilience, and drive financial inclusion, a key enabler for overall economic growth.
- The establishment of Infracorp. Plc with will assist in closing the infrastructure gap and catalyze growth in key sectors of the economy
- The Nigerian International Financial Centre, (NIFC) will act as an international gateway for capital and investments inflow into the country to complement all other initiatives aimed at ramping up economic growth.

**Policy Decision**

Whilst acknowledging the improvements in monetary and financial stability indicators, there is a compelling need to adopt a policy stance that builds on the current growth momentum.

The reduction in inflation and improvement in domestic output validates the strategy to maintain the policy stance taken at previous MPC meetings to support output growth whilst structural and supply side bottlenecks are

addressed Whereas it is important that the Committee keeps an eye on domestic price developments in line with its primary price stability mandate, sustaining the post-Covid recovery – particularly as prices continue to abate - remains a pressing consideration for the Committee.

Adjusting policy parameters now may truncate the positive trajectory of key macroeconomic indicators. Reducing the MPR may exert inflationary pressures and reverse the downward trend of prices expected in the short to medium term. On the other hand, increasing the policy rate to rein in inflation may stall output growth with significant adverse economic consequences. Sustained implementation of the CBN's interventions in the agriculture and manufacturing sectors aimed at boosting output will further address supply side constraints and put downward pressure on inflation. Ongoing efforts of the fiscal authorities to address security and other structural issues (transport, logistics and infrastructure) will complement these efforts.

In view of the above, I vote to retain all parameters at existing levels;

- MPR at 11.5 per cent
- The Asymmetric corridor of +100/-700 basis points around the MPR
- Liquidity ratio at 30.0 per cent, and
- CRR at 27.5 per cent

## 4. ALIYU, AHMED

## INTERNATIONAL AND DOMESTIC ECONOMIC DEVELOPMENTS

The global economy is steadily recovering from the effects of the COVID-19 pandemic, driven by sustained policy support, significant progress in vaccinations, and rapid reopening of economies and international trade. The recovery remains two-track though and continues to rely on the progression in vaccine distribution and vaccinations. While the Advanced Economies are approaching full recovery and beginning to prepare for economic normalization, the Emerging Markets and Developing Economies (EMDEs) still face macroeconomic challenges. As a result, the IMF in its July 2021 World Economic Outlook (WEO), retained its global growth projection at 6.0 percent, revised growth forecasts upward for the Advanced Economies to 5.6 percent from 5.1 percent, and downgraded its predictions for EMDEs to 6.3 percent from 6.7 percent. This reflects the uneven pace of global recovery. Overall, global growth is expected to moderate to 4.9 percent in 2022.

Inflation in Advanced Economies earlier thought to be transitory is now persisting. For most of the countries, inflation remain elevated on account of steady recovery in demand amid supply bottlenecks. Following increasing pace of price development and closure of the output gap, central banks of Advanced Economies are cautiously observing the trend and may have to delay or opt for a gradual tapering process with the moderation of prices to their long-run objective. In some EMDEs, food prices and exchange rate pressure are exerting upward pressure on prices.

As Advanced Economies approach full-scale recovery and begin to consider the normalization of monetary policy, there is the risk of a possible redirection of international capital flows away from EMDEs. The likely impact on economic growth and macroeconomic stability, requires deliberate policies by EMDEs to mitigate their adverse effects.

Relatedly, global trade, currently buoyed by merchandise trade, is recovering faster than expected, after a dismal performance in the second half of 2020. The IMF projects global trade to rise to 9.7 percent in 2021, moderating to 7.0 percent in 2022. This optimistic scenario is, however, contingent on the success of extant policies and multilateral efforts at containing the pandemic, and practical solutions to the supply chain chaos occasioned by ports congestion, particularly in the US.

Crude oil prices, propelled by increasing demand as a result of the recovery in world output and trade have remained upbeat, at about US$70/barrel. Based on the near to medium term expectation of a robust recovery, oil prices are projected to increase further. For an oil exporting country like Nigeria, the high prices, coupled with stable production, would improve the trade balance and support growth in external reserves, as well as the implementation of the 2021 Federal Government Budget, premised on an oil benchmark of US$40/barrel.

The accumulation of both private and public debt is giving way to growing concerns about debt sustainability and financial crisis in the event of a default. The Special Drawing Rights (SDR) allocations to countries by the IMF in an effort to help member countries recover from the pandemic is expected to provide additional liquidity support to them, improve their external reserves and reduce their reliance on debt.

**THE DOMESTIC ECONOMY**

Real Gross Domestic Product grew by 5.01 percent (year-on-year) in Q2 2021, from 0.51 percent in Q1 2021, indicating three consecutive quarters of positive growth rates. The development reflects the considerable return of business and economic activities, supported by monetary and fiscal stimulus to contain the adverse effects of the COVID-19 pandemic on the economy. However, quarter-on-quarter, real GDP grew by -0.79 percent, reflecting slightly slower economic activity. The non-oil sector at 92.58 percent, contributed the most to real GDP, compared to the oil sector which contributed a moderate 7.42 percent.

Notable, is the slowdown in the growth rate of the agricultural sector. Agriculture grew by 1.30 percent in Q2 2021 from 2.28 percent in Q1 2021 and 3.42 percent in Q4 2020. The sustained decline is worrisome, considering its huge impact on inflation and employment generation. Ongoing efforts at addressing insecurity in the country, increasing monetary and fiscal interventions in agriculture, as well as developing critical infrastructure to support farming i.e., irrigation, drainage, storage and transportation; are expected to boost the productivity of the sector in the near to medium term.

The Manufacturing and non-Manufacturing Purchasing Manager's Indexes (PMIs), which gauges the level of business activity, at 46.9 index points apiece in August 2021, improved over the 46.6 and 44.8 index points in July 2021, respectively, and points to a strong and sustainable recovery.

On price development, headline inflation year-on-year, slowed further to 17.01 percent in August 2021, from 17.38 percent in July 2021. The moderation in inflation was largely due to a deceleration in the food and core components,

from 21.03 and 13.72 percent, respectively, in July 2021 to 20.30 and 13.41 percent, respectively, in August 2021, owing to improvement in the supply chain. However, on a month-on-month basis, headline and food inflation rose to 1.02 and 1.06 percent in August 2021 from 0.93 and 0.86 percent in July 2021, respectively, while core inflation slowed to 0.77 percent in August 2021 from 1.06 percent in July 2021. With the rapid return of economic activities, buoyed by targeted interventions in the real sector to increase output, and the gradual recovery from the Covid-19 pandemic, I believe that inflation will sustain its current downward momentum.

On monetary aggregates, Broad Money Supply M3 increased by 5.83 percent in August 2021, compared to 2.91 percent in July 2021, owing primarily to a 12.35 and 4.30 percent increase in Net Foreign Assets (NFA) and Net Domestic Assets (NDA), respectively. The growth in Net Domestic Assets reflects the improvement in aggregate credit net, which grew to 8.14 percent in August 2021, from 5.71 percent in July 2021.

Overall, the Financial Soundness Indicators (FSIs) remain robust. Staff report shows that Capital Adequacy Ratio (CAR) remained within the regulatory threshold of 10-15 percent, while Non-Performing Loans (NPLs) are gradually moderating to the regulatory maximum of 5 percent. Total credit increased by N3.0 trillion or 15.63 precent, between end-July 2020 and end-July 2021, due largely to the increase in industry funding base, as well as the CBN's directive on Loans to Deposit Ratio (LDR). Also, the declining lending rates, although marginally, provides some assurance of improvement in lending to the private sector in the near term.

Capital market performance as measured by the All-Share Index (ASI) and Market Capitalization (MC) increased by 2.67 and 2.63 percent, respectively, on September 14, 2021, from their levels on June 30, 2021, reflecting improved investor sentiments and confidence in the economy. Likewise, gross external reserves, shored by SDR allocation of US$3.35 billion by the IMF and increase in third party receipts, rose to US$35.97 billion at end-August 2021.

On fiscal development, the rapid automation and visibility of FGN fiscal operations would bolster the revenue collection process and translate to positive revenue generation for the government.

**CONSIDERATION FOR VOTING**

It is pleasing to note that the V-shape recovery predicted in 2020 crystalised in Q2 2021 following the significant increase in real GDP to 5.01 percent, year-on-year. The economy has also sustained the growth momentum which

commenced in Q4 2020. It is noteworthy, that quarter-on-quarter real GDP in Q2 2021 performed lower than it did in the previous quarter, indicating that base effects could have contributed to the leap in the year-on-year growth rate. This does not however dampen optimism about the future direction of growth in view of the lag effect of current policies.

The sustained moderation in headline inflation for the fifth consecutive month to 17.01 percent (year-on-year) in August 2021 is commendable. Nevertheless, inflation remains high at that level and above the central bank's benchmark corridor of 6-9 percent. It is salutary that food inflation is declining, including the core component, which is indicative that the downward price movement may soon gather strength.

On exchange rate development, I believe the Bank would continue to support genuine legitimate transactions, as it intensifies effort on demand management, while continuing its supply management drive to improve the current account balance, boost foreign exchange supplies and stabilize the foreign exchange market.

Given the pace of output recovery and inflation deceleration, as well as the contending needs in the economy, it is appropriate to hold all policy parameters at their extant levels, as well as place an eye on exogenous factors that may present upside risks to inflation, such as a possible pass-through from exchange rate, and insecurity that distorts the supply chain. In the meantime, monetary and fiscal stimulus should continue to support the growth recovery, more-so, as the action reinforces the price stability objective.

I, therefore, vote to maintain the *status quo* by retaining all policy parameters at their current levels:

- MPR at 11.5 percent
- The asymmetric corridor at +100/-700 basis points around the MPR
- Liquidity ratio at 30.0 percent
- CRR at 27.5 percent

## 5. ASOGWA, ROBERT CHIKWENDU

**Background:**

The overall outlook at the time of this September MPC's meeting seemed in a much better position than at the MPC meeting in July 2021. Global economic conditions have really strengthened as more people are now vaccinated with restrictions largely eased. Eventhough for many poorer countries with little access to vaccines, the pandemic trajectory remains troublesome, but with vaccine manufacturing steadily rising, the expectation is that economic activities will likely gather pace in the remaining parts of 2021 in almost all countries. Although global growth is improving, it remains uneven as recovery is at different speeds for different countries. In developed economies, recovery seems faster with household consumption growing quickly and even some companies finding it difficult to meet the rapidly rising demand, but for some developing countries, growth is still fragile. While some central banks have commenced tightening of monetary policy in response to the emerging inflationary trends, some are signalling a possible tightening of monetary policy in the period ahead, yet other countries have continued with an expansionary monetary policy, essentially prioritising growth.

On the domestic front, recent indicators show a robust economic recovery during the second quarter of 2021, but the external sector continues to face some challenges, especially as foreign inflows remain weak, with huge consequences for government fiscal operations and exchange rate management. At this MPC September meeting, the focus as before remains on ensuring that the domestic economy reverts to its pre-pandemic potentials, thus the consideration of the current and expected macroeconomic developments at both the global and domestic contexts will be key to policy choices.

**Assessment of the Global Economy:**

Recovery in global growth continued to gain momentum in the second quarter of 2021, but the strength still diverges across regions and countries with access to COVID-19 vaccines, relaxation of containment measures and the degree of policy support emerging as principal factors driving the speed of recovery. CBN staff report show strong 2021 second quarter output growth in many advanced and emerging market economies. In USA for instance, GDP expanded by 6.6 percent in the second quarter of 2021, while in the Euro area, it grew by 2.0 percent in the second quarter of 2021 as compared with the contraction of -0.3 percent in the first quarter. In the UK, output grew by 4.8 percent in the second quarter of 2021 as compared with the contraction of -1.6 percent in the first quarter. Similarly. 2021 second quarter output expansions were recorded in

several emerging and developing economies including Korea, India, China, Brazil, South Africa and Egypt, but recovery seems to be weaker in some of these economies than expected. The global output growth is now forecast at 6.0 percent for 2021 reflecting the strengthening of economic activity, especially recovery in global trade which has increased rapidly since 2021 up to a level that is about 5.0 percent higher than the period prior to the pandemic. Overall, the balance of risks to the global outlook is still tilted to the upside mainly due to the uncertainty over the path of the Pandemic and the potential risk of heightened financial market volatility.

The global pro-inflationary risks seem to have persisted with many countries experiencing price pressures due to supply-demand mismatches, high global commodity prices and in some cases domestic energy price increases. In the UK, twelve-month CPI inflation rose from 2.0 percent in July to 3.2 percent in August 2021. In the euro area, headline inflation also rose to 3.0 percent in August 2021 from 2.2 percent in July, while core inflation rose to 1.6 percent from 0.7 percent during the same period. The US CPI inflation also remains elevated in August at 5.3 percent easing slightly from a 13-year high of 5.4 percent in June and July 2021. Eventhough the increasing global inflationary pressures are evoking key concerns, there are still strong beliefs that these pressures may simply be transitory and largely driven by adverse supply side factors.

With the inflation outlook assessed to be skewed to the upside, many central banks have taken pre-emptive actions in order to ensure stability in the period ahead. On the basis of this, some central banks have commenced the tightening of monetary policy. Brazil, Korea, Norway, Sri Lanka all adjusted policy rates upwards in order to address possible upside pressures on inflation, but in some other emerging economies as India and Malaysia, policy rates have remained unchanged despite the slight inflation upticks. The central banks of major advanced economies have however continued to pursue an expansionary monetary policy. The Bank of England voted in September to maintain the policy rate at 0.1 percent with a commitment to continue with its programme of government bond purchases. Similarly, the European Central Bank expects to maintain policy rates unchanged in September with the asset purchase programme continuing at the rate of EUR 20 billion per month. The US Federal Reserve also at the end of July 2021 meeting held its monetary policy unchanged, whilst maintaining the net purchases of government securities at USD 8.0 billion per month. The Bank of Japan also in September kept both its policy rate and government bond buying commitments unchanged. Other central banks like Canada, Australia and New Zealand have signalled the tapering of asset purchase commitments and in some cases have commenced the reduction or complete discontinuation of such purchases.

**Domestic Economic Assessment.**

Turning to the Nigerian economy, some key indicators continue to evolve satisfactorily reflecting modest recovery from the pandemic. GDP increased by 5.01 percent in 2021 quarter 2, compared with 0.51 and 0.11 percent in quarter one of 2021 and quarter four of 2020 respectively. Growth was primarily driven by the non-oil sector especially a rebound of the services sector. The agriculture sector also recovered during the second quarter as compared with the first quarter. Growth is expected to pick up further in quarter three going by recent high-frequency data such as the Manufacturing and non-Manufacturing PMIs and the Index of Industrial Production. In August 2021, both the manufacturing and non-manufacturing PMIs stood at 46.9 points compared with 46.6 and 44.8 points, respectively in July 2021. This rise indicates sustained demand and a pick-up in investment against the backdrop of improved business performance.

Headline inflation (year-on-year) moderated further in August 2021 to 17.01 percent from 17.38 percent in July 2021, with food inflation falling while core inflation edged up slightly. On a month-on-month basis however, both headline and food inflation rose to 1.02 and 1.06 percent in August 2021 from 0.93 and 0.86 percent, respectively in July 2021. It is expected that price levels will continue to fall in the coming months especially as the harvest season starts and with positive developments around insecurity in the food producing regions.

In the domestic financial market, prices and indicators have also moved in the right direction since the last MPC meeting in July. The All-Share equity market index increased by 3.46 percent between end-June 2021 and end-August 2021, while the market capitalization also increased by 3.41 percent during the same period. System liquidity remains strong buoyed by the Central Bank's conventional and unconventional market operations. Broad money supply (M3) has continued to expand, growing by 5.83 percent in August 2021 as compared with 2.91 percent in July 2021, while overall banking system credit to the economy increased month-on-month by 2.2 percent in August 2021, while on a year-on-year basis, it increased by 8.62 percent. Interestingly, the interest rate spread (between maximum lending rate and the weighted average savings and term deposit rate) declined marginally for the first time in several months, moving from 25.45 percent in July 2021 to 25.41 percent in August 2021. The banking sector itself remains stable and resilient, just like the position at the last MPC meeting despite marginal drops in the profitability indicators. The non-performing loans ratio for the banking sector decreased further from 5.7 percent in June 2021 to 5.4 percent in July 2021 with the size of the total banking industry assets increasing by 15.38 percent, year-on-year between July 2020 and July 2021.

The external and fiscal sectors remain two key risks that confront the domestic economic outlook. For the external sector which continued to face a multitude of challenges in recent times, a broad based response is key and may require some coordinated demand and supply sides management measures. With the increase in import expenditure outweighing the improvements observed in earnings from exports, the trade deficit has remained significant in the first half of 2021, eventhough on a quarter-to-quarter bases, there was some moderation in the size of the trade deficits in the second quarter of 2021. The limited export activities and the advancing of post-COVID imports together with some speculative activities continued to exert undue pressure on the exchange rate in the domestic market. There is some sort of naira exchange rate stability at the officially recognised NAFEX or I&E window with a marginal depreciation of 0.22 percent between end-July 2021 and end-August 2021. The path of the Naira exchange rate remains highly uncertain eventhough the gross external reserves increased by 8.23 percent between end-August 2021 and end-July 2021. Oil futures prices now indicate somewhat lower prices ahead, implying a possible weaker naira in isolation. While the Government continues with measures to secure foreign financing from several sources in order to reinforce the level of external reserves in the near future, efforts at containing the anomalies created by the unrecognised foreign exchange market especially by the BDCs need to be ramped up. The government should however continue to aggressively explore options to enhance non debt-creating foreign inflows by strengthening domestic production and export capacity.

The upside fiscal pressures remain unabated, similar to the position in the previous MPC meeting. CBN staff report show that the revenue-expenditure gap widened between January and June 2021. The persisting context of increasing fiscal deficits amid weak revenue performance and soaring debt levels presents considerable uncertainty around the future domestic economic outlook. The pressure on the available government revenue is now much greater than was assumed in the July MPC meeting and urgent expenditure related reforms, especially on the non-salary recurrent side will help to minimise the borrowing needs. Such fiscal adjustment measures premised on fiscal discipline will help achieve a sustainable budget balance.

**Monetary Policy Decision:**

In consideration of the current and expected macroeconomic developments as highlighted above, it is necessary that the ongoing accommodation stance with significant monetary stimulus should be continued. The trade-offs facing monetary policy in terms of a possible inflationary spike are not yet diluted, but speeding up the return to more normal output levels should remain a key focus.

Generally, domestic economic conditions are starting to normalise, but there is still a need for an expansionary monetary policy stance whilst the Central Bank stands ready to respond appropriately as conditions dictate.

I thus voted to:

- Retain the MPR at 11.5 %
- Retain the CRR at 27.5%
- Retain the Asymmetric Corridor at +100/-700 basis points around the MPR
- Retain the Liquidity Ratio at 30.0%

## 6. OBADAN, MIKE IDIAHI

Uncertainties have continued to pervade the global economy arising from the mercurial nature of the coronavirus which has been mutating into more virulent variants. This has caused serious concerns even in countries that have achieved a high rate of vaccination, for example, Israel, the United States, and some European countries. In African countries which have experienced low rates of vaccination, the concerns are even more, especially in those countries, for example, Nigeria, where the third wave of the virus, in the form of the Delta variant, among others, is currently raging with notable fatalities in some parts of the country. There seems to be a global divide in economic recovery and global growth prospects along the lines of the Advanced Countries which have high vaccination rates and optimistic recovery prospects, and the Emerging Markets and Developing Economies (EMDEs) which have low vaccination rates and weaker recovery and growth prospects. Sharp geographical imbalances in vaccination have been quite visible. The danger is that slow vaccination rate in the EMDEs would not only prolong the pandemic, but also enable the evolution of coronavirus mutants which would eventually spread to countries that are highly vaccinated, with significant economic and public-health consequences. Therefore, more policy/financial support is required to help the Emerging Markets and Developing Economies to increase vaccination and recover from the negative economic consequences of the pandemic. It is even in the enlightened self-interest of the advanced countries to support even distribution of vaccines across the globe. Global economic recovery could be threatened by uneven distribution of vaccines and the spread of new and more transmissible variants of the virus. Such a downside scenario could significantly depress growth in 2021 and in 2022

### KEY GLOBAL DEVELOPMENTS

Since the last MPC meeting, developments in the global economy have not changed much, especially in the spheres of growth prospects, trade, commodity, financial markets, and policy responses to the effects of the coronavirus pandemic.

### Steady, but uneven, economic recovery across the globe

The global economy is charting a rather robust path of recovery. The recovery of economic activities has been going on steadily, though unevenly, in different parts of the world even in the face of resurgence of new variants of the coronavirus. Inequality in access to vaccines is causing divergence in economic recovery across the globe. The uneven distribution of vaccines entails risks which are building up, aggravated by mutating strains of the Covid-19 virus which are

causing concerns to even the vaccinated and preventing herd immunity. Nevertheless, it seems that many countries have decided to live with the virus without re-imposing lockdowns while seeking ways to boost vaccination of the populace and encouraging compliance with the non-pharmaceutical protocols against the virus.

Consequently, the IMF's earlier growth projection for the global economy of 6.0 per cent through its World Economic Outlook (WEO) (April, 2021) was upheld in the July update of the Outlook. But it is expected to moderate to 4.9 percent in 2022. On the other hand, in the Advanced Economies, the 2021 growth projection was revised upwards to 5.6 percent while it is expected to moderate to 4.4 percent in 2022. But because of the limited availability of the Covid-19 vaccines in most of the Emerging Market and Developing Economies that are facing resource constraints and considerable public health and macroeconomic challenges, the growth projection of EMDEs was downgraded to 6.3 percent in 2021 and expected to moderate to 5.2 percent in 2022.

**Global trade is rebounding than expected**

Global trade in 2021 is rebounding faster than anticipated after falling sharply during the second half of 2020. Global trade volumes are projected to expand to 9.0 percent in 2021 and moderate to 7.0 percent in 2022. The recovery in global trade is being supported by strong monetary and fiscal policy packages from governments as well as the effective Covid-19 vaccination coverage in the advanced countries. But the downside risk to global trade is the mutation of new strains of the coronavirus which, if not effectively checked, could lead to fresh rounds of international trade and travel restrictions.

**Crude oil prices remain strong in the region of US$ 70.00 per barrel**

Crude oil markets weakened earlier in August 2021 as the resurgent pandemic threatened demand in China and the US, prompting the US government to call on OPEC and its oil producing allies to boost production in an effort to combat rising gasoline prices. But prices have since recovered as demand remained strong in the face of downside risks from threats around the resurgence of covid-19 infections. Thus, crude oil prices continued an upward trajectory, in the region of US$70 per barrel in August 2021. For the Bonny Light brand of crude oil, which is of interest to Nigeria, after hitting a peak of US$75.09 on 25th June, 2021, the price declined moderately to US$70.02 per barrel on 27th August, 2021. This compares with US$50.43 per barrel on 4th January, 2021 and a low of US$14.67 per barrel recorded on 27th April 2020. The price of the commodity is currently above the pre-pandemic level of US$67.20 per barrel recorded on 1st January, 2020.

What has fuelled oil prices is the continued optimism that the current global vaccination will surmount the Covid-19 pandemic and return economies to some form of normalcy. Hence, the increasing demand and recovery in the real economy as economic agents gradually return to their businesses post-lockdown. The rising oil prices have broadened the fiscal space of OPEC member countries. It is not clear the impact that this has had on Nigeria's finances and external reserves.

Against the backdrop of uncertainties in the oil market, indications in the oil futures market are that the price of crude oil will lie between US$69.64 per barrel and US$68.97 per barrel between October and December 2021, but moderate to about US$63.77 per barrel at end 2022.

**Global debt is at historically high level**

This was near record levels and steadily increasing well before the covid-19 pandemic broke out. The sharp fall in economic activities triggered by the Pandemic and the virus' containment measures, led to a further rise in global debt to historic highs across both the advanced and major emerging economies. Debt as a ratio of world economic output surged by 35 percentage points to over 355 per cent of GDP. The current upswing is well beyond the rise seen during the global financial crisis in 2008. This may weigh on growth and raise sustainability concerns across countries depending on the structure, composition and use of debt proceeds.

**Fiscal policy support to economic recovery continues along with monetary accommodation**

Financial conditions remain broadly accommodative. Monetary and fiscal policies continue to support economic recovery and create jobs required to push the global economy over the brink to full recovery. In the face of recurring waves of the coronavirus, the advanced countries have implemented additional stimulus packages. In the US, a US$1.0 trillion infrastructure bill was passed by the Senate in August 2021 while the European Union is taking further steps to support the economies of member states with a EUR 750 billion Next generation EU Recovery package. Also, a look at the policy rates of the central banks of both the advanced and emerging market economies indicate a continuing strong trend towards monetary accommodation. However, central banks across the globe have continued to maintain the delicate balance between supporting the recovery and mitigating the persistence of increases in price to avert the upside risks from high inflation.

As the advanced economies move closer to full recovery, discussions on the normalization of monetary policy are increasingly being held as their central banks put in place finishing touches to tapering of their bond purchase programmes. The European Central Bank has commenced tapering of its coronavirus pandemic bond purchase programme while the US Federal reserve is likely to taper its US$120.0 billion monthly bond purchase programme at its November 2021 meeting. Should the Advanced Economy central banks commence the much-anticipated normalization of monetary policy before the end of 2021, capital flows to major emerging market economies, may suffer reversal. Indeed, if the anticipated redirection of global capital flows away from the EMDEs towards the Advanced Economies takes place, it would increase the divergence between these groups of economies and consequently, slow down their recovery.

**KEY DEVELOPMENTS IN THE DOMESTIC ECONOMY**

The Nigerian economy is no doubt on the path of steady recovery after exiting a short-lived covid-19-induced recession in the fourth quarter of 2020. However, strong concerns remain arising from the fact that although the monetary and fiscal policy responses of the government have achieved results, macroeconomic challenges remain. Hence, complacency cannot be an option. Rather, it is important to intensify efforts to achieve respectable economic growth, quarter-on-quarter, tame inflation, which is decelerating rather sluggishly, and stabilise the exchange rate, among others. Some leading issues considered are as follows:

i. Growth has improved year-on year, but it has not reached the level which indicates steady upward trend, quarter-on-quarter. No doubt, the quarter 2 growth rate of 5.01 percent is impressive in relation to the -6.1 percent growth achieved one year earlier, that is in quarter 2, 2020. The improved growth reflects base effect, that is the very low output heralding recession in that quarter. Considered on quarter-on-quarter basis, the growth performance in the two quarters of 2021 is not impressive. Q2 growth in 2021 actually declined by 0.79 percent in relation to Q1. Indeed, total real output in Q2 is lower than that in Q1, while the Q1 output is lower than Q4 2020 output while this growth is higher than Q2 2020 output. Thus, growth needs to be further stimulated through accommodating monetary and fiscal measures so that the CBN projected output growth of 3.93 percent in Q3 and 2.86 percent at the end of 2021 could be realised.

ii. Headline inflation (year-on-year) has been on the path of deceleration since April 2021 (5 months), having first declined from

18.17 percent in March to 18.12 percent in April. It moderated further to 17.01 percent in August, 2021 compared to 17.38 per cent in July and 17.75 per cent in June. Food inflation, which is a major driver of the headline inflation, also moderated to 20.30 percent in August, 2021. But both are still uncomfortably high. The headline inflation has remained significantly above the ceiling of the Central Bank of Nigeria's single-digit inflation corridor of 6.0 - 9.0 per cent and the Bank's policy rate of 11.5 per cent. Notwithstanding the deceleration, the rate still provides cause for concern by citizens. Consequently, easing monetary policy would exacerbate inflation.

iii. High exchange rate. The I & E rate, year-to-date, depreciated by 4.5 percent to N412.75 as at September 14, 2021 from N394.03 to one US dollar in January. This has contributed to headline inflation through its pass-through effects from prices of imported goods and services to domestic prices. The upward trend of the exchange rate has been a key driver of the rising inflation. On the other hand, the depreciating exchange rate reflects low foreign exchange inflows, unsustainable demand for imports, and uncomfortable external reserves position.

iv. Fiscal operations of the government, by resulting in escalating fiscal deficits, have tended to worsen macroeconomic instability. As at June 2021, the Federal Government's fiscal operations resulted in an overall deficit of N4.328 trillion, 61.8 percent higher than the budgeted amount. The deficit reflects low inflow of government revenues compared to the expansion in government expenditure. As at June 2021, Federal Government revenue was about 35 percent below the budget benchmark for 2021, financed by money and new borrowings.

v. Escalating Public Debt. Associated with the fiscal deficits is rising public debt which absorbs a large proportion of government revenue. The latest reports indicate that Nigeria's public debt stock has shot up to N35.5 trillion, 7.75 percent higher than N32.9 trillion recorded at the close of 2020. External debt accounted for N13.7 trillion or 38.7 percent. The escalating debt stock has continued to raise debt sustainability issues, especially in terms of revenue. While the public debt is sustainable in terms of GDP, it is not sustainable in terms of revenue which is a much better indicator of burden for now. Overall debt sustainability is threatened by continued narrow fiscal space and weak fiscal buffers.

**OPINION**

The growth rate of the economy is still very low and fragile while the threat to it from the third wave of coronavirus and insecurity in the country is real. The economy does not compare with the Advanced Economies which are planning to normalise their monetary policies. Those economies have achieved near-full recoveries even with the threat of recurrent waves of coronavirus. The Nigerian economy is still on the path to full recovery. Therefore, fiscal and monetary policy support is still very much desired. Specifically:

- CBN should continue to support efforts to vaccinate a sizable proportion of the Nigerian populace.
- Development finance interventions should be continued with improved access for those who need the funding ensured.
- Government should be encouraged to undertake a thorough review of its public expenditure profile to reduce the cost of governance and minimise fiscal deficits.
- Government should avoid spending all the revenue received from the current high oil prices. In other words, it should muster the will to save a part of the earnings.
- Efforts to tame inflation should not be limited to tackling the known factors – monetary and non-monetary factors including the legacy structural factors and insecurity. The search light should also be beamed on the arbitrariness of some manufacturers, middlemen and retailers in fixing prices. Most of the price increases do not reflect economic fundamentals. The nefarious role of market associations/unions in escalating inflation was recently acknowledged by the Ondo State Government which promptly banned such associations/unions in Ondo State. Other State Governments should take a cue from that Government.
- The CBN should continue with administrative measures to taper/control the effects of monetary expansion on inflation.
- Against the backdrop of relatively improved foreign exchange reserves, the Bank should consider augmenting supply to the foreign exchange market while also considering further demand management measures.
- On the exchange rate, the Bank should ignore the call by some stakeholders that the parallel market rate should guide the appropriate exchange rate in Nigeria. This suggestion has no basis. That market constitutes a negligible proportion of the foreign exchange market in Nigeria. Consequently, it cannot provide guidance on the appropriate exchange rate in the country. Rather, it is the equilibrium rate, as empirically determined, that should provide guidance on the appropriate level of the exchange rate.

- In light of the recent foreign exchange policy measures, effective monitoring of the foreign exchange activities of the deposit money banks is of the essence. It will be tragic if the sharp practices of the BDCs are relocated in the commercial banks.

In sum, the economy is positively, but gradually, responding to government policies including monetary policies. In view of the subsisting twin problem of weak growth and high inflation and the policy dilemma posed, neither further tightening nor loosening of monetary policy is desirable at this time. And so, I voted to hold the policy parameters at their extant levels below, while the Bank continues with the implementation of the development finance interventions to stimulate output and employment, and administrative measures to control excess liquidity:

| | |
|---|---|
| Monetary Policy Rate: | 11.5 percent |
| Cash Reserve Requirement: | 27.5 percent |
| Liquidity Ratio: | 30.0 percent |
| Asymmetric Corridor: | +100/-700 percent around the MPR |

## 7. OBIORA, KINGSLEY ISITUA

> *In light of a modest recovery in economic activity and moderating inflation and given the monetary policy actions that we have already taken, I voted to: retain the Monetary Policy Rate (MPR) at 11.5 per cent, the Cash Reserve Ratio (CRR) at 27.5 per cent, the Liquidity Ratio (LR) at 30 per cent and the asymmetric corridor of +100/-700 basis points around the MPR. I believe this stance will complement the Bank's policy measures aimed at supporting economic activity, ensure banking system stability and containing inflationary pressures.*

**The severe macroeconomic fallouts of the Coronavirus Disease (COVID-19) continued amid global vaccination.** Although there has been a decline in the global confirmed cases and deaths in recent weeks, the Delta variant continues to devastate many economies, especially regions with low vaccination coverage. Since the July MPC meetings, the number of confirmed cases in the world has increased by 16.4 percent from 195 million to 227 million in September 2021. Similarly, the number of deaths increased by 15.0 percent from 4 million to 4.6 million. Whilst the COVID-19 pandemic continues to spread, the distribution of vaccines to contain the virus has been frustratingly uneven between developed and developing countries. Out of 5.86 billion doses of vaccines administered globally as of 17 September 2021, Africa received only 2 percent. This slow pace of vaccination would make it extremely difficult for Africa to achieve the target of 10 percent vaccination coverage set for September and 40 per cent by December 2021, let alone the African Union's target of 70 percent in 2022. Therefore, there is a need to urgently address this gap to avoid the continued spread and mutation of the COVID-19 pandemic.

**The crisis of vaccine inequality notwithstanding, the global economy is projected to remain strong in 2021.** Whilst the Global Purchasing Manger's Index eased to 54.1 in August from 55.4 points in July 2021, it continued to trend above the 50 points neutral mark for the fourteenth ($14^{th}$) consecutive month. The improved performance was driven by consumer spending, intermediate and investment goods, manufacturing production, as well as new orders. Consequently, for the July 2021 World Economic Outlook, the IMF retained its April 2021 growth forecast of 6.0 per cent for 2021 but with some revisions. Whilst,

the Advanced economies' projection was revised upwards from 5.3 per cent to 5.6 per cent, the Emerging Markets and Developing Economies (EMDEs) was revised downwards from 6.7 per cent to 6.3 per cent. These revisions were because of the differences in the monetary and fiscal policy support and the vaccination coverage. Overall, the projections are susceptible to the dynamic path of the COVID-19 pandemic and the different economic challenges confronting each region.

**Following the global trend, the domestic economy sustained its recovery in the second quarter of 2021, driven by base effects and policy support.** Official data from the National Bureau of Statistics (NBS) showed that Nigeria's real Gross Domestic Product (GDP) increased (year-on-year) by 5.01 per cent in the second quarter of 2021 from 0.51 per cent in the preceding quarter. It is the strongest growth since the fourth quarter of 2014. The growth performance was driven by the non-oil sector, which grew by 6.74 per cent as against the Oil-sector that contracted by 12.65 per cent. The key sub-sectors that recorded significant growth in activity include Road transport, Electricity, Gas, Steam and Air Conditioning Supply, and Rail Transport and Pipelines by 92.38, 78.16 and 53.28 per cent, respectively. Coal Mining, Trade, Metal Ores, and Insurance also grew by 34.14, 22.49, 21.12 and 15.68 per cent, respectively. However, activity in Oil Refining, Quarrying and Other Minerals, and Financial Insurance contracted by 46.78, 12.29 and 4.54 per cent, respectively.

**The significant recovery was driven by sustained fiscal stimulus, accommodative monetary policy of the Central Bank of Nigeria (CBN), and base effects**. Accordingly, the IMF projected economic growth of 2.5 per cent in 2021 from a contraction of 1.8 per cent in 2020. Also, inflationary pressures continue to decelerate for the fifth consecutive month. Headline inflation (year-on-year) moderated further to 17.01 per cent in August from 17.38 per cent in July 2021. The moderation was due to the decline in food and core components of inflation. Both decreased to 2.30 and 13.41 per cent in August from 21.03 and 13.72 per cent in July 2021, respectively. Furthermore, external reserves grew by 7.41 per cent (month-on-month) to US$35.97 billion at end-August from US$33.49 billion at end-July 2021. This was largely driven by the Special Drawing Rights (SDR) allocation of US$3.35 billion by the IMF – a development that will further sustain the current exchange rate stability at the Investors and Exporters (I&E) window. In addition, I am convinced the CBN's digital currency (the e-Naira) that will be launched in October 2021 will not only accelerate financial inclusion in the country but also improve foreign exchange availability and accretion to external reserves by providing Nigerians in diaspora a new and easier option to send money home. Besides, it will allow the CBN to effectively gain real-time

monetary system information that would assist in monetary policy management and foster economic growth through digital innovations.

**The financial soundness indicators showed that the banking system remain sound, stable and resilient.** The total assets of the industry increased by 15.38 per cent from N47.58 trillion in July 2020 to N54.90 trillion in July 2021. Consequently, the gross banking sector credit increased by N6.63 trillion from N15.57 trillion at the end of December 2020 to N22.20 trillion at the end of July 2021. The increased credit was recorded in manufacturing, consumer credit, general commerce, information and communication and agriculture. The credit growth was driven by the loan-to-deposit ratio (LDR) policy, the extension of regulatory forbearance and other macroprudential measures. The Capital Adequacy Ratio (CAR) and the Liquidity Ratio(LR) both stood at 15.2 and 41.7 per cent in July 2021, above their prudential benchmarks of 15.0 and 30.0 per cent, respectively. Although the Non-Performing Loans (NPLs) ratio was above the regulatory benchmark of 5.0 per cent, it has significantly improved from 6.42 per cent in July 2020 to 5.38 per cent in July 2021, reflecting the case by case review of regulatory forbearance, the impact of Global Standing Instruction (GSI) policy, and strengthening of risk management practices in banks. However, the monthly weighted average for Inter-bank Call and Open Buy Back (OBB) rates increased from 10.72 and 11.60 per cent in July to 13.45 and 12.97 per cent in August 2021. This implies a tight banking liquidity condition as part of efforts in moderating inflationary pressures and safeguarding the banking system stability.

**Despite the year-on-year growth rate of 5.01 per cent in Q2 2021, we must remain vigilant because the recovery is still fragile.** While both manufacturing and non-manufacturing Purchasing Manager's Indexes (PMIs) appear to be improving, they are still below the 50 index points at 46.9 apiece. Similarly, headline inflation has decelerated for the fifth consecutive month, but is still above the implicit target of 6-9 per cent. With the commencement of the harvest season and the various interventions by the CBN, I believe the inflation rate will decelerate towards the Bank's implicit target in the near term. Furthermore, the CBN in conjunction with the Federal Government continues to support the critical sectors of the economy through the various targeted interventions in households, SMEs, health, agricultural, manufacturing, and ICT. I believe the impact of these interventions in promoting economic growth and resuscitating lives and livelihoods are undeniable.

**However, given the modest recovery and the long-standing infrastructural challenges, more action is required to return the economy to a sustained**

**recovery.** That is why I support the current effort by the Central Bank of Nigeria (CBN), in collaboration with the Africa Finance Corporation (AFC) and the Nigeria Sovereign Investment Authority (NSIA), to launch the establishment of Infrastructure Corporation of Nigeria Limited (InfraCorp) during the fourth quarter of 2021. It is a Public-Private Partnership (PPP) with a seed capital of N1 trillion from the Promoters, and expected to rise to N15 trillion from local and international investors. InfraCorp is expected to promote infrastructural development in transport and logistics, power, telecommunications and technology, industrial and agricultural infrastructure as well as Social Infrastructure. This will further support the growth of the non-oil sector, create more jobs, and accelerate poverty reduction in the country.

We must, therefore, aggressively support these efforts and sustain those policies already put in place by the Bank targeted at the key sectors of the economy; whilst also ensuring that inflationary pressures are contained. On this basis, I voted to:

- Retain the Monetary Policy Rate (MPR) at 11.5 per cent;
- Retain the Cash Reserve Ratio (CRR) at 27.5 per cent;
- Retain the Liquidity Ratio (LR) at 30.0 per cent; and
- Retain the asymmetric corridor at +100/–700 basis points around the MPR.

## 8. SANUSI, ALIYU RAFINDADI

### 1.0 Decision

In today's meeting, I voted for a hold on all the policy parameters because, as the data and staff projections show, inflation would continue to decline, while output recovers in the medium-term. Although the output recovery continues to be fragile and further easing would support the process, the risk of reversing the disinflationary process amidst rising exchange market pressure is considerable. As the global economy continues to recover from the pandemic-induced economic recession, and as the impact of the domestic monetary and fiscal stimuli continue to permeate the economy, a hold on all the policy parameters appears to be the optimal choice.

### 2.0 Background and Justification

### 2.1 Global Economic Developments

*The growth rebound in Advanced Economies (AEs) is accompanied by rising inflation, which remain above their long-term target of 2%. World trade, commodity prices and international oil prices also continued to recover despite the increasing cases of COVID-19 infection in some countries. These developments raise the possibility of policy normalization in the Advanced Economies, thereby threatening capital flow to Emerging Market and Developing Economies (EMDEs).*

The global economy has continued to recover in line with earlier projections, and is expected to grow at 6% in 2021. The regional growth projections by the IMF were, however, revised in July 2021 reflecting the higher growth in AEs, which are now moving towards policy normalization. The forecasts for EMDEs were, however, revised downwards reflecting the associated impact of their limited macroeconomic policy responses and access to vaccines due to resource constraints. Consequently, output in Advanced Economies is now projected to grow by 5.6% and 4.4% in 2021 and 2022, respectively, on account of the substantial fiscal and monetary support as well as widespread vaccine coverage. The EMDEs are expected to grow by 6.3% and 5.2% in 2021 and 2022, respectively. Output in the US economy has grown (q-on-q) by 6.6% in Q2 2021 and is projected to grow at 5.1% in Q3 2021 and 4% in Q4 2021. In the Eurozone, output has expanded by 2% (q-on-q) in Q2 2021 compared with 0.3% achieved in Q1 2021. Similarly, the UK Economy grew by 4.8% in Q2 2021 and is projected to grow at 2.5% in Q3 2021. In the EMDEs, output in India expanded by 20.1% (q-on-q) in Q2 2021. China grew by 1.3% (q-on-q) due to improved market expectations and rise in production, employment and demand. Output in Brazil

is expected to decline by -0.2% (q-on-q) in Q2 2021 due to resurgence of new variants of COVID-19. Russia is expected to grow by 1.8% (q-on-q) in Q2 2021. The strong recovery in global trade is expected to be sustained in 2021 (at 9.7%) despite the rising cost of shipping. Although the crude oil prices continue to be on the upward trend on account of strong demand as the global economy recovers, the market remains uncertain given the gradual rise in the green economy initiatives, especially as the calls for reduced financing of investments in fossil fuel grow louder. As at September 14, 2021, the price of OPEC basket stood at US$ 71.98 per barrel compared with US$65.29 per barrel on May 22, 2021 or US$54.38 per barrel in January 2021.

As a result of the growth rebound, inflation in the Advanced Economies has risen above its long-term target of 2%, especially in the US and UK. In the US, inflation was 5.3% in August 2021 compared with 5.4% in July 2021 and is expected to persist. In the UK, inflation increased from 2.0% in July 2021 to 3.2% in August 2021. In the Euro area, inflation is expected to rise to 3% from 2.2% in July 2021. In the EMDEs, price developments during the period were mixed. Between July and August 2021, inflation decreased in China (1.0% to 0.8%) and Nigeria (17.38% to 17.01%), but increased in Kenya (6.55% to 6.57%), Egypt (5.4% to 5.7%) and Ghana (9.0% to 9.7%). The rising inflation in the Advanced Economies amidst output recovery has increased the likelihood of policy normalization in the major economies. Indeed, the EU has started the tapering of its bond purchase programme while the Fed is expected to announce the start of normalization with the tapering of its US$120 billion monthly bond purchase programme in its November meeting. Interest rate hikes are, however, not expected before the end of 2022. *The impending tightening in the AEs will have significant effects on capital flows to the EMDEs, including Nigeria, and adversely affect their external reserves and exchange rates.*

## 2.2 Domestic Economic Developments and their Implications

Domestic output recovery continued to improve in the second quarter of 2021 since exiting the COVID-19 induced recession in the fourth quarter of 2021. The V-shaped output recovery, however, continued to be fragile. Although the economy grew (y-o-y) by 5.01% in the second quarter of 2021 according to the National Bureau of Statistics (NBS), a closer look shows that the high positive growth rate reflects the based effect of the Q2 2020 output. Indeed, the N16.7 trillion real output recorded in Q2 2021was actually slightly lower than the N16.8 trillion produced in Q2 2021. *Although the -0.79% decline in q-on-q real GDP may largely reflect seasonality, it also highlights the fragility of the recovery.* The positive year-on-year real output growth during the Q2 2021 was driven by the non-oil sector, which grew by 6.7%, largely due to growth of services (9.27%) and

Agriculture (1.3%), while the Industrial sector contracted by -1.23%, due to contraction in Mining and Quarrying. The Oil Sector contracted by -12.65% due to declines in crude production level of Forcados and Escravos crude steams caused by leaks on the Trans Ramos and Bonga pipelines. Both the Manufacturing and Non-manufacturing Purchasing Manager's Indices (PMIs) marginally improved in August 2021, but were below the 50-point benchmark. Staff forecasts show that output growth would be 3.33% for the Q3 2021 and 2.86% for the year 2021 if the oil price remains at US$70 per barrel.

As expected, the headline inflation continued to moderate (y-o-y) from 17.8% in July 2021 to 17.01% in August 2021, driven by the moderation in food inflation, which declined to 20.3% in August 2021 from 21.03% in July 2021. The decline in food inflation was driven by food and non-alcoholic beverages. The core component also decelerated (y-o-y) to 13.41% in August 2021 from 13.72% in July 2021. The deceleration of the Core inflation was driven by moderation in Transport and Health. Staff forecasts suggest that inflation would moderate to 16.4% in September 2021 and further to 15.3% in October 2021. The upside risks are the persistent insecurity across the country and high cost of transport driven by higher PMS and Diesel costs, electricity tariff, and exchange rate pass-through.

Available data showed that in August 2021, broad money, M3, increased by 5.83%, 3.81% below its provisional benchmark of 9.64% for Q3 2021, but higher than the 2.91% achieved in July 2021. The higher monetary growth relative to the preceding month was driven by the rise in the Net Foreign Assets (NFA) by 12.35%. Gross credit by the banking system has continued to grow since the implementation of the LDR policy. Total credit increased by N3 trillion between end-July 2020 and end-July 2021. Total credit disbursed to the economy, which stood at N22.2 trillion as at end-July 2021, as a percentage of the GDP grew from 52.05% in Q4 2020 to 62.04% in July 2021. A review of the financial soundness indicators of the Banking System revealed that the banking industry has continued to remain resilient. The Non-performing loans (NPLs) ratio further declined to 5.4% in July 2021 compared with 5.7% in June 2021 and 6.1% in December 2020 due to the implementation of the GSI policy. Available data showed that weighted average lending rates continued to decline since January 2021. Both the maximum lending rates and prime lending rates have declined to 27.77% and 11.59% in July 2021, respectively, from 29.05% and 11.67% in June 2021.

## 3.0 The Basis for My Policy Choice

In today's meeting, I voted for a hold on all the policy parameters because, as the data and staff projections showed, inflation would continue to decline, while output would recover in the medium-term. In choosing a policy stance, I considered loosening as an optimal option so as to further support the fragile output recovery, and disinflationary process which could be at the risk of reversing amidst rising exchange market pressure. I also considered that the option of tightening to further support the disinflationary process (encourage capital inflows and ease the foreign exchange market pressure) would risk hurting the fragile output recovery. A hold on the current policy stance would, however, allow for the evolution of both inflation and output on their projected trajectories as the global economy continues to recover, and the impact of the domestic monetary and fiscal interventions continue to patriate the economy.

Consequently, I voted to:

Retain the MPR at 11.50 per cent;

Retain the CRR at 27.5 per cent;

Retain the Asymmetric corridor at +100/–700 basis points around the MPR; and

Retain Liquidity Ratio at 30.0 per cent.

## 9. SHONUBI, FOLASHODUN A.

The pressure for policy makers around the world to improve the current sluggish global economic recovery is at its highest. Even as the mutating virus continues to pose new challenges, persisting gap in access to vaccines and vaccination rate between advanced and developing economies, amidst uncontained spread of the virus in some nations constitute a threat to global growth. The overwhelming inclination is to continue to focus on measures that leverage the internal potentials and strength of the domestic economic environment to achieve sustainable growth.

### Global and Domestic Economic Developments

As many nations struggle to ease restrictions imposed to curb spread of Covid-19 virus, rising momentum in global trade, amidst sustained monetary and fiscal stimuli have been the major driver of global growth. Strong output growth in advanced economies has also been, largely aided by increasing vaccination coverage and substantial fiscal support, even as inflation continues to rise. In the emerging and developing economies, sluggish vaccination rate, high trade cost and rising probability of policy normalization in the advanced economies have been a drag on growth, leading to downward revision of the region's growth projections to 6.3 per cent in 2021. Despite upward revision of growth in advanced economies to 5.6 per cent, the International Monetary Fund forecast global growth to remain at 6.0 per cent in 2021.

Domestic economic growth delightfully strengthened further in the second quarter of 2021 making three consecutive quarters of expansion, post-recession. The National Bureau of Statistics (NBS) reported GDP growth at 5.01 per cent in Q2:2021, driven mainly by 6.74 per cent growth in the non-oil sector, against 12.65 per cent contraction in the oil sector. Growth in the service sector was 9.27 per cent, up from 0.39 per cent contraction in the preceding quarter, while growth in the agricultural sector slowed to 1.30 per cent. The Industry sector also contracted by 1.23 per cent, due mainly to the dismal performance of the oil sector.

Headline inflation remained high at 17.01 per cent in August 2021, though deceleration in inflationary pressure from April 2021 continued for the fifth consecutive month, as inflation reached its lowest since January 2021. Similarly, food inflation decelerated further but remained high at 20.30 per cent, on account of widespread insecurity induced disruptions to food production and distribution. Exchange rate pass through and rising cost of trade due to persisting disruptions to global supply chain have also kept prices of imported necessities

and core inflation high at 13.41 per cent in August 2021, slightly down from its level in the preceding month.

In addition to continually serving as the veritable channel for the Bank's intervention, the banking system has remained generally resilient and stable, with major prudential ratios generally hovering around regulatory benchmarks. Industry deposit and asset grew further in the review period. Similarly, even as aggregate credit continues to grow, aided by the LDR policy, industry non-performing loans improved further to 5.4 per cent, inching closer to the regulatory minimum of 5.0 per cent. Industry capital adequacy ratio, at 15.2 per cent, was above the 15.0 per cent threshold.

Growth in major monetary aggregates generally trailed provisional benchmarks for the fiscal year, except for the net domestic assets which significantly surpassed the target. Liquidity conditions in the banking system continued to drive trends in major money market rates. Amidst easing financial condition, the gradual return of confidence witnessed in recent months in the capital market was sustained, as the all share index and market capitalization improved further.

Though external reserves increased in August 2021, net-outflow, and reduced proceeds from petroleum related sources, continued to heighten pressure in the external sector. In the fiscal sector, revenue remained significantly below the budget benchmark, despite pressure for increased expenditure to address widespread insecurity, rising need for social safety net and infrastructural deficit.

**Overall Considerations and Decision**

Prospect of global growth remains largely dependent on attainment of increased vaccination, as well as, the ability to sustain the monetary and fiscal stimuli support. However, widening gap in vaccination rate between advanced and other economies constitute major headwind, even as increasing mutation worsened uncertainties around the pandemic, with implications for further reopening of economies and global trade. This stalling outlook of global growth and probability of commencement of policy normalization by some advanced economies are further motivations for refocusing of the domestic policy trajectory

Despite the positive outcomes so far, the current environment of high inflation, fragile growth, limited fiscal space and pressured external sector presents a challenging scenario for policy. However, given the progress in the recent period, the outlook, though mixed, portends good omen. Continued deceleration in inflation is a welcome development and testament to the efficacy of CBN's measures, especially those directed at enhancing food

production and distribution, easing the supply chain and preserving aggregate demand. Despite consistent month-on-month expansion in the broad money supply, its overall sub-benchmark growth diminishes the monetary phenomenon risk to inflation.

The signs in the real sector are encouraging, especially considering the need to further strengthen growth across all sectors. With increasing contribution of the non-oil sector to growth, aided by the Banks's interventions, the prospects of further expansion in output remain bright. Third consecutive months of increase in the Purchasing Mangers' Index, on account of, higher employment level and raw material inventory is also a signpost of positive outlook, though higher input and output prices underscores inflationary expectations. I therefore encourage the Bank to sustain its interventions for improving credit flow to the productive sectors, so as to keep output expansion, while also intensifying its effective demand enhancing stimulus to preserve aggregate demand.

Amidst combination of measures to maintain stability in the foreign exchange market and mitigate risks to the external sector, improved accretion to external reserves is a testament that the Bank's actions are in the right direction. As the fiscal authority grapple with high debt profile, due to falling revenue and rising expenditure, I want to restate my earlier calls for the Government to strongly leverage the public-private partnership model to efficiently close the financing gap for addressing the infrastructure needs in the economy, while also resolving widespread insecurity. Hopefully implementation of the Petroleum Industry Act will facilitate enhancement of the value adding opportunities in the oil sector.

In the light of recent progress from our effort to restore the economy to path of sustainable growth, the key task is to preserve and, where possible, reinforce the policies that have delivered the current growth and deceleration in inflationary pressure.

I therefore voted to retain the:

- MPR at 11.50 per cent;
- Asymmetric corridor of +100/-700 basis points around the MPR
- Cash Reserve Ratio (CRR) at 27.5 per cent; and
- Liquidity Ratio at 30.0 per cent.

**10. EMEFIELE, GODWIN I.**

**GOVERNOR OF THE CENTRAL BANK OF NIGERIA AND CHAIRMAN, MONETARY POLICY COMMITTEE**

With robust recovery in the first two quarters of 2021, global economic outlook remains strong; yet, uneven across regions. Further dismantling of covid-19 restrictions in many countries, boosted by the progress in vaccine administration and increased cross-country trade, continued to rebound economic activities towards pre-pandemic trends. In addition, growth momentum was ubiquitously reinforced by sizeable fiscal and monetary stimuli. Global growth for 2021 is projected, by the IMF, at 6.0 percent, even as the race between vaccine rollout and new variants of the virus persists. With growth projections upgraded to 5.6 percent from a previous 5.1 percent, GDP in some advanced economies could surpass pre-pandemic levels by end-2021. However, sluggish vaccine distribution debilitated growth projection for emerging markets and developing economies to 6.3 percent from 6.7 percent.

Outlook of the domestic economy continued to brighten amidst favourable year-to-date outcomes of key economic metrics. The upturn in domestic economic activities derived from the coordinated fiscal and monetary support for households and businesses, to curtail the adverse shocks from covid-19. At 5.01 per cent, GDP recorded a better-than-forecast growth rate in 2021q2 from 0.51 percent in 2021q1. This was mainly driven by the non-oil sector which grew by 6.74 percent from 0.79 percent as services rebound from a contraction of -0.39 percent to a growth of 9.27 percent. The resilient 1.30 percent growth of the agriculture sector reinforced the recovery. With this, the non-oil sector contributed 6.09 percent to overall growth rate while the balance of -1.08 percent was derived from the oil sector which recorded a deeper contraction of -12.65 percent from -2.21 percent in 2021q1. The performance of the domestic economy largely reflected the continued upside impact of the various real sector interventions of the CBN.

Near-term outlook remained buoyant given the continued consolidation of manufacturing and non-manufacturing PMIs in August 2021 to 46.9 index points apiece, indicative of strengthening domestic conditions. For the entire 2021, the Nigerian economy is projected to expand by 2.5–3.0 percent vis-à-vis the -1.92 contraction in 2020. The upturn of domestic economic activities is progressive towards pre-pandemic levels and historical average on the backdrop of resilient non-oil activities (especially agriculture sector). As business sentiments brighten, following our various supply-side stimulus and orderly implementation of macroeconomic policies, I expect domestic fragility to continue to dissipate

with favourable knock-on effects on job creation and poverty alleviation. Our medium-term goal is to fast-track growth rates above historical levels, raise per capita income (as GDP outpaces population growth rate), and achieve single-digit inflation rate as we actively collaborate with fiscal authorities to stimulate high-impact productive sectors.

Headline inflation slowed for the fifth consecutive month to 17.01 percent in August 2021 from 17.38 percent in July. This reflected the disinflation in both the food and core components of inflation. Food inflation moderated by 0.73 percentage points to 20.30 percent while core inflation fell by 0.31 percentage point during the month. Yet, inflation remained outside the CBN tolerance range of 6–9 percent, due to supply-side constraints including infrastructure deficits, energy prices, exchange market pressures and lingering insecurity. Short-term inflation expectations are traversing downward as our development financing gradually resolve supply rigidities. I note that the newly created InfraCorp, by rousing vital infrastructure investments, will narrow the existing infrastructure gap and lower the long-run trend of inflation.

Monetary condition was relatively tight during the review period, compared with a bullish capital market. Weighted average inter-bank call and open-buy-back rates rose from 10.72 and 11.60 percent, respectively, in July 2021 to 13.45 and 12.97 percent in August. Though monetary aggregates expanded in August, they were largely below provisional benchmarks. The 5.83 percent growth in broad money supply was 3.81 percentage points below target. At 12.35 percent, the growth in net foreign assets was below the targeted 32.79 percent while net domestic assets expanded by 4.30 percent, reflecting the 17.45 percent growth in private sector credits. With the introduction of the LDR policy, gross credit increased from N15.57 trillion in May 2019 to N22.20 trillion in July 2021. Amidst rising credits, the banking system remained pleasingly stable and resilient. Capital adequacy ratio and liquidity ratio, at 15.2 and 41.7 percent, respectively, stayed above the prudential limits, while Non-Performing Loans (NPL) ratio, at 5.4 percent, continued to fall towards target.

In my consideration, I noted that the domestic economy continues to recover towards pre-pandemic levels. Output growth rebound in 2021q2 was satisfying, although GDP remained slightly below potential. Price developments is also unravelling favourably with five consecutive months of disinflation. These positive developments notwithstanding, economic dynamics remain fragile and threatened by covid-19 related drawbacks, especially in the race between vaccination and new virus strains. Uncertainty around crude oil developments, frail investor sentiment and lingering security challenges

increase the vulnerability of the domestic economy to further shocks. Yet, I note that whilst short-term domestic outlook is improving, it is imperative to sustain the orderly and coordinated policy actions in order to strengthen economic fundamentals. Currently, inflation remains higher-than-desired and needs to be curbed. But we also need to strengthen GDP (per capita) growth in order to boost the welfare of the Nigerian economy and reduce poverty and unemployment. I, again, recognise the underlying trade-off between GDP and inflation as I continue to favour measures to boost domestic supply capacity and dismantle immanent structural bottlenecks.

The growth and inflation considerations remain a policy dilemma. Today, I maintain my cautious optimism and unwillingness to jolt the current trajectories of either growth or inflation. I adjudged that whereas accelerated disinflation and growth were desirable, the balance of evidence indicated that both were currently moving in the ideal direction and could attain the required levels in due course. I emphasise that the mandate of price stability remains inviolable, but not at the cost of adverse policy shocks to the real economy. A policy change today may cause indeterminate outcomes and derail the nascent recovery. I maintain my inclination towards a balanced and cautious decision to maintain the current policy stance and avoid policy-induced shocks. Therefore, I vote to:

1. Retain the MPR at 11.5 percent;
2. Retain the asymmetric corridor at +100/–700 basis points around the MPR;
3. Retain the CRR at 27.5 percent; and
4. Retain liquidity ratio at 30.0 percent

**GODWIN I. EMEFIELE, CON**
Governor

September 2021